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Financial Reporting Alert

Audit Services

In This Issue :

Understanding Recent Issues under Canadian GAAP, US GAAP and IFRS Relating to the Credit Crisis and the Potential Impact on Canadian Companies

October 17, 2008

There has been unprecedented activity by the accounting standard setters and regulatory agencies around the world in the past quarter resulting from the current global credit crisis. The objective of the attached material is to summarize the most significant developments in Canada, the United States and at the International Accounting Standards Board and to provide an overview of the major considerations for Canadian Corporations and the implications for senior management, audit committees and boards.

Breaking News Regarding Reclassification of Certain Held for Trading Financial Assets:

On Monday October 13, 2008, the International Accounting Standards Board issued an amendment to the International Financial Reporting Standard relating to financial instruments – International Accounting Standard 39: *Financial Instruments – Recognition and Measurement*.

- The amendment does not apply to financial assets which were **designated** by management as HFT at date of acquisition by choice - known as the fair value option.
- The amendment permits entities to retrospectively reclassify eligible HFT financial assets out of HFT into another category in "rare circumstances". The IASB indicated in a press release that they believe current market conditions are possibly an example of such rare circumstances.
- If a financial asset is reclassified from HFT, it must be classified as Loans and Receivables, Available for Sale or Held to Maturity and the reclassification can be made retrospectively for any date back to July 1, 2008 [established to coincide with the beginning of an entity's third quarter if they are a calendar year end entity].

- Several questions and interpretations have arisen on this amendment and it is possible that additional clarification regarding the transition guidance or scope may be forthcoming from the IASB.

- On October 16, 2008, the Canadian AcSB announced it will issue a similar amendment as the IASB amendment described above to amend CICA 3855: *Financial Instruments – Recognition and Measurement* and permit reclassification of certain HFT securities under rare circumstances. Due to the urgency, the AcSB has decided to waive formal exposure. A draft of the amendment has been posted on the AcSB website for a "fatal flaw" review and a formal typescript version is expected to be available during the week commencing October 20, 2008.

    - Canadian GAAP and IFRS differ in several respects relating to the classification of securities, the determination of impairment of securities and in the types of instruments eligible to be classified as HFT.

    - Careful analysis of the impact of the amendment issued by the AcSB will be required to determine the impact on a company for the current reporting period and future reporting periods.

    - It is our current understanding that reclassification of eligible HFT financial assets out of HFT can be done at any date on or after July 1, 2008 assuming that the market events or other factors meet the criteria necessary to be considered to qualify as a rare circumstance. However, reclassifications can only be made for periods for which annual or interim financial statements have not been previously issued (no retrospective restatement is permitted). Significant judgement will be required to determine which financial assets are eligible for this amendment and further, which ones the entity determines should be reclassified.

    - The reclassified financial assets must be reclassified at their fair value on the reclassification date.

    - Companies should also consider whether the reclassification will require the need to reassess the financial asset for embedded derivatives or consider whether hedge accounting should be considered prospectively from the current date (not the reclassification date).

    - This amendment may also create a need to determine if there are any US GAAP differences which may be created or eliminated as a result of any reclassifications.

    - A draft of the amendment has been posted on the AcSB website for a "fatal flaw" review and a formal typescript version is expected to be available during the week commencing October 20, 2008.

Fair Value Measurement and Other Than Temporary Impairment Update:

- The Canadian GAAP, US GAAP and IFRS requirement to record certain financial assets at fair value remains intact despite the current market conditions – subject to the reclassification amendment described above. Under Canadian GAAP:

    - Financial assets classified as Held for Trading (HFT) or designated as Held for Trading at the company's option (HFT FVO) are recorded at fair value with changes in fair value recorded through income.

- Financial assets classified as Available for Sale (AFS) are recorded at fair value with changes in fair value recorded in Accumulated Other Comprehensive Income (a component of equity), unless the financial asset has been determined to be "other than temporarily impaired". (Note that IFRS does not have the concept of other than temporary impairment)

- Financial assets classified as Loans and Receivables or Held to Maturity are carried at amortized cost, less provisions for impairment. Fair values are required to be disclosed for such financial assets.

- Fair value is defined in Canadian Generally Accepted Accounting Principles (GAAP) as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act"[1]. As such, fair value is an estimate of the amount of proceeds a company would receive if they were to sell the financial asset in the market on the balance sheet date in an orderly, normal course transaction.

- Fair value determinations are required to consider the credit risk inherent in the instrument as well as other market factors such as liquidity risk that market participants would consider in valuing the same instrument.

- Various regulators and standard setting bodies have continued to provide guidance on best practices that should be used in determining the fair value of a financial asset in illiquid markets. Much of that guidance has been focused on issues relating to the extent to which market or "observable" inputs should or must be used in such determination.

  - The United States Financial Accounting Standards Board (FASB) issued a clarifying example – FASB Staff Position 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3) - to Statement of Financial Accounting Standards 157: *Fair Value Measurement* (SFAS 157) to illustrate how fair value should be determined when market or "observable" inputs are derived from illiquid, inactive or distressed markets and how such inputs should be incorporated into the determination of fair value. While the guidance in Canadian GAAP regarding the determination of fair value for financial assets is not identical to the guidance in SFAS 157, the illustrative example in FSP 157-3 is still a relevant example of how a Canadian company could apply Canadian GAAP fair value guidance in the current market. This was confirmed by the Chair of the Canadian Accounting Standards Board, Paul Cherry, in a press release issued on October 2, 2008.

  - The Canadian Accounting Standards Board has previously issued three commentaries specifically relating to the determination of fair value for non-bank sponsored asset backed commercial paper which also provide relevant guidance to financial statement preparers regarding considerations for the determination of fair value. It is expected that an update to this commentary will be issued shortly and in addition, we understand that the AcSB also plans to issue a more general document regarding general issues associated with the determination of fair value in illiquid markets.

[1] Canadian Institute of Chartered Accountants Handbook Section 3855.19(j)

- The International Accounting Standards Board has accelerated many projects to address the current credit crisis including projects relating to consolidations and derecognition of financial assets.
- Companies should continue to consider other implications arising from the current credit crisis on their financial statements and continuous disclosure documents such as:
    - The decline in market value of pension fund assets may have implications for future funding and future expense (due to the potential for large actuarial losses to be realized which will be recognized as expense in future periods) which impact the MD&A outlook and liquidity disclosures;
    - Revisions in forecasts may have adverse implications for impairment of tangible and intangible assets, and "more likely than not" evaluations of future income tax assets;
    - The impact of counterparty creditworthiness on the fair value of derivatives and the effectiveness of hedging relationships; and
    - The Company's own liquidity position due to increased borrowing costs, reduced access to the capital markets or debt that matures within the next year that may require refinancing in an uncertain market.

In the attached document, we have summarized the most relevant pronouncements, press releases and analyses to assist you with keeping on top of the developments for the past quarter. We have grouped the items into three categories in the following pages:

1. Reclassification of Financial Assets from Held for Trading
2. Determination of Fair Value and Other Than Temporary Impairment
3. Other Financial Reporting Risks, Disclosures and Considerations Relating to the Current Credit Crisis.

Due to the speed at which events are unfolding, we encourage you to continue to monitor developments through the following sources:

Organization	Web site
Canadian Accounting Standards Board (AcSB)	www.acsbcanada.org
United States Financial Accounting Standards Board (FASB)	www.fasb.org
United States Securities and Exchange Commission (SEC)	www.sec.gov
United States American Institute of Chartered Public Accountants (AICPA)	www.aicpa.org
International Accounting Standards Board (IASB)	www.iasb.org
DTT Accounting News Update	www.iasplus.com
Deloitte Centre for Corporate Governance	www.corpgov.deloitte.ca
Deloitte Standard-setters Activities Digest	www.deloitte.com/ca/standards

Reclassification of Financial Assets from Held for Trading

Date Issued	Summary
Canadian Accounting Standards Board (AcSB)	
October 16, 2008	October 15 Decision Summary • Issued fatal flaw proposed amendment to CICA 3855: *Financial Instruments – Recognition and Measurement* (CICA 3855) to mirror the IASB amendment of IAS 39 to permit transfers of certain qualifying financial assets from Held for Trading in "rare circumstances" • Limited retrospective reclassification permitted within the current financial reporting period on or after July 1; however, restatement of previously issued interim or annual financial statements is not permitted • Determination of classification of reclassified financial assets to be made on a basis consistent with the nature of the instrument and the guidance in CICA 3855 • Amendment does not apply to financial assets designated as HFT by management on origination. Amendment only applies to financial assets which are HFT "by nature" • Reclassification must be done at fair value on the reclassification date • Incremental disclosures and measurement guidance for subsequent increases in estimated cash flows • Final amendment expected to be issued in the week of October 20, 2008 http://www.acsbcanada.org/4/6/8/2/7/index1.shtml
Deloitte's comments: • Clarifications or amendments to the fatal flaw document may result from the comment period or as a result of clarifications to the IAS 39 amendment.	
International Accounting Standards Board (IASB)	
October 13, 2008	IASB Issues Amendments to IAS 39: *Financial Instruments – Recognition and Measurement* • Final standard issued without comment period due to urgency of issue • Permits an entity to reclassify certain non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) category in certain "rare circumstances" • Reclassification into FVTPL is prohibited • Reclassifications can be made retrospectively back to July 1, 2008 • Any reclassifications must be at fair value at the date of reclassification. Previously recognized gains or losses cannot be reversed. The fair value becomes the new cost or amortized cost of the financial asset, as applicable. • Additional guidance is provided regarding the determination of interest income under the effective interest method • Out of scope – Financial liabilities classified s FVTPL, derivatives, or financial assets that are designated as FVTPL under the 'fair value option' cannot be reclassified • Consequential amendments to IFRS 7: *Financial Instruments – Disclosures* to require incremental disclosures when reclassification is selected http://www.iasb.org/NR/rdonlyres/BE8B72FB-B7B8-49D9-95A3-CE2BDCFB915F/0/AmdmentsIAS39andIFRS7.pdf

Date Issued	Summary
October 13, 2008	IASB Press Release: IASB amendments permit reclassification of financial instruments • Summarizes the reason for the issuance of the amendment • Indicates that the deterioration of the world's financial markets that has occurred during the third quarter of this year is a possible example of rare circumstances cited in these IFRS amendments and therefore justifies their immediate publication • Amendments are part of a series of responses to the current credit crisis and the recommendations of the Financial Stability Forum • Intention is to reduce inconsistency with US GAAP http://www.iasb.org/NR/rdonlyres/7AF46D80-6867-4D58-9A12-92B931638528/0/PRreclassifications.pdf
Financial Accounting Standards Board (FASB)	
	FAS 115 does not prohibit reclassifications into or out of the held for trading category. However, the guidance notes that they are expected to be "rare".

Key Observations for Canadian Entities:

- Derivative financial instruments, financial liabilities and financial assets classified as Held for Trading (HFT) using the fair value option are not in scope of either the IAS 39 amendment or the proposed amendment to Canadian GAAP. The amendment only applies to financial assets classified as HFT if they were acquired principally to be sold in the short term or the company intended to manage the asset as part of a portfolio where there is a history of short term profit taking (HFT by nature).

- Reclassification is only permitted in "rare circumstances" which are not defined in the amendment; however, the IASB noted in their press release that the current market conditions are a possible example of such rare circumstances.

- This scope issue is particularly relevant to Canadian companies applying Canadian GAAP as financial assets that meet the definition of a "loans and receivables" under CICA 3855.19 (f) prohibits the classifications of loans as HFT by nature – which is a difference from IFRS and as such loans are generally not currently classified as HFT by nature under Canadian GAAP. Therefore, the primary type of financial asset eligible for reclassification under Canadian GAAP is securities that were originally classified as HFT based on their nature and not on the fair value option.

- Differences in the definition of a loans and receivable ("L&R") between Canadian GAAP and IFRS also impact the instruments eligible for reclassification under this amendment. A debt security such as a bond, asset backed security, CDO security or CMBS security does not generally meet the definition of a L&R under Canadian GAAP. The instruments impacted by reclassifications under Canadian GAAP are expected to primarily be securities and therefore reclassified instruments would be either classified as Available for Sale (AFS) or Held to Maturity (HTM). In the latter case, all the conditions required for HTM classification would have to be met. Under IFRS, it is likely that many of the reclassified instruments may be eligible to be reclassified as L&R due to in part to the scope differences discussed above as well as differences in the distinction between L&R and securities under IFRS vs. Canadian GAAP.

- The operational issues around subsequent accounting, including the requirement to consider the impact of the effective interest method on the recognition of interest income and the assessment of other than temporary impairment considerations for changes in fair value subsequent to the reclassification should be carefully analyzed.

Key Considerations for Canadian Companies:

- Does the company have any financial assets classified as HFT by nature under CICA 3855? If not, this amendment to CICA 3855 has no impact on the company.
- Does the company have appropriate segregation between financial assets classified as HFT by nature and those designated as HFT using the fair value option?
- Does the company have the capability to determine a reliable fair value at the reclassification date and to comply with enhanced ongoing disclosure requirements?
- For interest bearing financial assets that are being considered to be reclassified out of HFT, can the company forecast the expected future cash flows from the instrument over the expected life in order to the compute the adjustment to the effective rate of interest as required by the standard?
- Are there accounting processes in place to document, track and account for financial assets reclassified out of HFT or reclassification of loans out of AFS into another category? Consider items such as tracking amounts in other comprehensive income (OCI), computation of effective interest rate for interest bearing assets, impairment assessments and amounts required for financial statement disclosure.
- If an entity is considering reclassifying an eligible financial asset into the HTM category, can the intent and ability to hold to maturity be demonstrated?
- Has management considered any Canadian to U.S. GAAP differences that result from or be eliminated by the potential amendment under Canadian GAAP?
- Will the reclassified financial asset be designated in a hedging relationship and if so, can the conditions for hedge accounting be met including the effectiveness assessment and measurement criteria?

Determination of Fair Value and Other Than Temporary Impairment

<table>
<tr><th>Date Issued</th><th>Summary</th></tr>
<tr><td colspan="2">Canadian Accounting Standards Board (AcSB)</td></tr>
<tr><td>October 2, 2008</td><td>Statement on Fair Value Accounting, by Paul Cherry, Chair, AcSB
Confirms that the illustrative example in FSP 157-3 issued by the FASB is consistent with Canadian GAAP fair value requirements
http://www.cica.ca/index.cfm/ci_id/46650/la_id/1.htm</td></tr>
<tr><td>April 18, 2008</td><td>Non-Bank Sponsored Asset-Backed Commercial Paper: Estimating Fair Value – Financial Commentary
Provides guidance on how to apply a valuation technique to estimate fair value under Canadian GAAP when there are no observable market prices for the financial asset and the market is illiquid
Provides a good summary of the factors that financial statement preparers should consider when determining fair value using a valuation technique
http://www.acsbcanada.org/index.cfm/ci_id/44457/la_id/1.htm</td></tr>
<tr><td colspan="2">Deloitte's comments:
There were two previous financial commentaries issued by the AcSB regarding Non-Bank Sponsored Asset-Backed Commercial Paper (ABCP) which were essentially superseded by the third commentary referred to above. A fourth commentary is expected by the end of the month to address issues specific to the non-bank ABSP restructuring.
More general guidance with respect to fair value accounting is also expected to be issued by the AcSB as a commentary by the end of October 2008.</td></tr>
<tr><td colspan="2">International Accounting Standards Board (IASB)</td></tr>
<tr><td>September 18, 2008</td><td>IASB Expert Advisory Panel: Measuring and disclosing the fair value of financial instruments in markets that are no longer active
Provides one of the most comprehensive summaries available of factors to consider in the determination of fair value when markets are inactive or illiquid.
Canadian GAAP and IFRS are essentially harmonized regarding the determination of fair value for financial assets and therefore this guidance is relevant for Canadian financial statement preparers.
http://www.iasb.org/NR/rdonlyres/F309C029-84B4-4F1F-BFB6-886EE9922A42/0/Expert_Advisory_Panel_draft_160908.pdf</td></tr>
<tr><td>October 14, 2008</td><td>IASB Press Release: IASB provides update on applying fair value in inactive markets
Provides an update on the work of the Expert Advisory Panel (referred to above)
Confirms that fair value is not the price that would be achieved in a forced liquidation or distress sale. Also reaffirmed that such transactions should not be considered in a fair value measurement; however even in times of market dislocation not all market activity arises from forced liquidation or distress sales
Confirms that FSP 157-3 is consistent with the findings of the Expert Advisory Panel on illiquid markets
http://www.iasb.org/NR/rdonlyres/2F9525FD-4671-439D-B08E-27C18C81C238/0/PR_FairValue102008.pdf</td></tr>
<tr><td colspan="2">Deloitte's comments:
The IASB has not yet adopted fair value measurement guidance consistent with FAS 157; however, there is an outstanding exposure draft issued by the IASB primarily based upon the guidance in FAS 157.
The final report of the Expert Advisory Panel is expected soon.</td></tr>
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Date Issued	Summary
Financial Accounting Standards Board (FASB)	
October 10, 2008	FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active • Provides an illustrative example regarding the determination of fair value as an addendum to SFAS 157-3 • Provides guidance regarding the factors considered to conclude a market was not active • Provides illustrative guidance regarding the determination of fair value when there is some observable data in an inactive market and a valuation technique is utilized http://www.fasb.org/pdf/fsp_fas157-3.pdf
September 30, 2008	Fair Value Clarifications, SEC and FASB staff joint questions and answers • Reaffirms that management's internal assumptions may be used in addition to, or instead of observable market data such as broker quotes, to measure fair value in certain circumstances • Provides guidance regarding the impact of a disorderly transaction or forced sale on fair value versus transactions in an inactive market which are not necessarily forced • Provides guidance regarding the determination of when a financial asset should be considered other than temporarily impaired under US GAAP • Emphasizes need for clear and transparent disclosures http://www.fasb.org/news/2008-FairValue.pdf
Deloitte's comments: • There continue to be requests from certain parties to provide more comprehensive relief from FAS 157 and fair value accounting. The FASB has not indicated any intention of addressing such requests until the SEC mark-to-market study has been completed (discussed below).	
Securities and Exchange Commission (SEC)	
October 14, 2008	SEC's Views Regarding Assessment of Declines in Fair Value for Perpetual Preferred Securities Under Existing OTTI Model • Provides specific guidance under US GAAP regarding the methodology to be used to assess perpetual preferred securities for impairment. • Unique issues with such securities arises from uncertainty about whether they should be assessed for impairment as debt securities or equity securities by the investor http://www.sec.gov/info/accountants/staffletters/fasb101408.pdf
Deloitte's comments: • Under legislation enacted last week to help stabilize financial markets, the SEC is required to conduct a study of "mark-to-market" accounting. The study is to be completed by January 2, 2009, in consultation with the Secretary of the Treasury and the Board of Governors of the Federal Reserve System.	
American Institute of Certified Public Accountants (AICPA)	
September 30, 2008	Frequently Asked Questions about Fair Value Accounting • High level summary of the US GAAP requirements for fair value accounting including a summary of level 1, 2 and 3 inputs • Includes several links to other useful websites with information on fair value accounting and related considerations http://www.aicpa.org/mediacenter/fva_faq.htm

Date Issued	Summary
United States Government	
October 1, 2008	Sec. 132. Authority to suspend mark-to-market accounting, Emergency Economic Stabilization Act of 2008 • Provides the SEC with the ability to suspend mark-to-market accounting. SEC and the FASB responded with the issuance of the joint questions and answers (discussed above) and an agreement to undertake a study on fair value accounting http://banking.senate.gov/public/_files/latestversionBill_sectionbysectionF.pdf
Deloitte	
October 15, 2008	SEC Issues Letter Clarifying Other-Than-Temporary Impairment Guidance for Perpetual Preferred Securities • Summarizes background relating to the valuation issues encountered with these securities and our analysis of the guidance issued by the SEC http://www.sec.gov/info/accountants/staffletters/fasb101408.pdf
October 13, 2008	What Is Fair in This Market? FASB Issues Guidance on Measuring Fair Value of Financial Assets in an Inactive Market • Provides our analysis of FSP 157-3 and related interpretive guidance for management to consider when determining fair values in inactive markets http://www.deloitte.com/dtt/newsletter/0%2C1012%2Ccid%25253D228362%2C00.html
October 8, 2008	Valuation Resource Group Discusses Nine Topics at September 23 Meeting • Additional guidance regarding fair value measurement and disclosure issues in the current market http://www.deloitte.com/dtt/newsletter/0%2C1012%2Ccid%25253D227679%2C00.html
Deloitte's comments: • Deloitte continues to issue timely interpretive guidance on all relevant market developments • Continue to monitor the reference websites included in the introduction to this document	

Key Observations for Canadian Entities:

- Global standard setters continue to reaffirm that fair value is still the most relevant measure for financial assets

- Additional interpretive guidance has been issued in the past quarter to assist financial statement preparers in their determination of the appropriate inputs and methodologies to determine fair value of financial assets when a market is inactive

- The current credit crisis continues to evolve and additional guidance will likely be issued to keep pace with current market conditions

- Although there are differences in the technical accounting standards regarding fair value in US GAAP from that in Canadian GAAP and IFRS, global standard setters have confirmed that the approach outlined by the FASB in FSP 157-3 regarding the determination of fair value in an active market is consistent with Canadian GAAP and IFRS

Key Considerations for Canadian Entities:

- Are the company's current fair value methodologies consistent with the fair value guidance issued throughout the past quarter?

- Does the company have a robust process to determine when a market is inactive and when observable inputs may require some adjustment to reflect that fact?
- What process does the company follow to determine when an observable market input reflects a distressed or forced transaction?
- If management is utilizing internal assumptions and cash flows, are there appropriate controls to determine the source for such assumptions and to understand changes in assumptions or cash flows from the previous period?
- Do senior management, the audit committee or the board have sufficient information about the methodologies used by management to determine fair value and which financial assets require a valuation technique versus the use of market quotations?

Other Financial Reporting Risks, Disclosures and Considerations

<table>
<tr><th>Date Issued</th><th>Guidance Issued</th></tr>
<tr><td colspan="2">Canadian Accounting Standards Board (AcSB)</td></tr>
<tr><td>Effective for fiscal periods beginning on or after October 1, 2007 for publicly accountable entities</td><td>Comprehensive disclosures related to financial instruments included in CICA Handbook Section 3862. Disclosures related to risks arising from financial instruments included in paragraphs 31-42.</td></tr>
<tr><td colspan="2">Deloitte’s comments:
• The AcSB has deferred consideration of any incremental disclosures until a future meeting.
• The AcSB has decided to defer the effective date of the adoption of Sections 3862 and 3863 for Not-For-Profit Organizations (NFPOs) until fiscal years commencing on or after October 1, 2008 and instead they should continue to follow Section 3861, Financial Instrument – Presentation and Disclosure.
This decision recognizes that many not-for-profit organizations might not yet have adopted Sections 3862 and 3863 and will choose to apply the proposed set of standards for private enterprises, which are expected to require significantly reduced disclosures about financial instruments
• The AcSB also clarified that co-operative business enterprises and rate-regulated enterprises that are not public enterprises as defined in Section 1300, Differential Reporting, will not be required to apply the current financial instruments standards, including Sections 1530, Comprehensive Income, 1651, Foreign Currency Translation, 3051, Investments, 3251, Equity, 3855, Financial Instruments — Recognition and Measurement, 3862, Financial Instruments — Disclosures, 3863, Financial Instruments—Presentation, and 3865, Hedges.
• This decision recognizes that many co-operative business enterprises and rate-regulated enterprises may qualify to adopt the proposed set of standards for private enterprise that the AcSB is currently developing.</td></tr>
<tr><td colspan="2">The Canadian Securities Administrators (CSA)</td></tr>
<tr><td>September 26, 2008</td><td>Canadian Securities Regulators Respond to Current Capital Market Events
http://www.csa-acvm.ca/html_CSA/news/08_22_Regulators_respond_to_current_capital_market_events.htm</td></tr>
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<tr><th>Date Issued</th><th>Guidance Issued</th></tr>
<tr><td colspan="2">Deloitte's comments:

We understand that several issuers have already been selected for review based on their leverage position, the need to re-finance in the near future or their cash flow position. The following is to raise awareness on important disclosure matters to be considered when preparing continuous disclosure filings.

Comments received from the Canadian Securities Commissions typically make reference to management discussion and analysis ("MD&A") requirements (Parts 1.6 and 1.7 of 51-102F1) pertaining to the discussion and analysis of liquidity and capital resources. Specifically, issuers are asked to consider the adequacy of their disclosures on the following:
The Company's ability to satisfy both current and long term obligations.
Capital resources available to the Company, including a discussion of sources of funding in the past as well as future sources of funding and whether this will have an impact on future operations.
Any impact that current market conditions have had or may have on liquidity and capital position, including known trends or expected fluctuations.
The issuers are also reminded that the MD&A should enable investors to evaluate the nature and extent of risk with respect to the issuers' financial instruments. Furthermore, issuers should consider whether the credit, liquidity and market risk disclosure expectations set out in Section 3862 have been met.</td></tr>
<tr><td colspan="2">International Accounting Standards Board (IASB)</td></tr>
<tr><td>October 15, 2008</td><td>IASB Issues Amendments to IFRS 7: Financial Instruments – Disclosures
Exposure draft, if approved, would be effective for fiscal periods beginning on or after July 1, 2009
Enhanced disclosures around fair value and reconciliations of fair value continuity for fair values measured without using observable market inputs
Fair value disclosures
Introduction of a three level hierarchy when disclosing fair values (comparable to the US SFAS 157 hierarchy)
Reconciliations of balances for fair values measured without using observable market inputs
Reconciliations of movements between the levels (including reasons)
Liquidity risk disclosures
Clarification of scope of which instruments are to be included
Disclosure of liquidity risk for derivative financial liabilities based on risk management of the entity
Disclosure of expected remaining maturities of non-derivative financial liabilities if the entity manages risk in that way
Enhanced relationship between quantitative and qualitative disclosures of liquidity risk
Additional liquidity risk disclosures
http://www.iasb.org/NR/rdonlyres/4493DEDA-9495-4656-B144-959168282860/0/PRonEDIFRS7Amendments.pdf</td></tr>
</table>

Date Issued	Guidance Issued
Deloitte's comments: • Incremental disclosures are part of the IASB's commitment to address comments raised by the Financial Stability Forum • The credit crisis has heightened concerns about liquidity risk and pointed to the need for entities to explain more clearly to the outside world how they determine the fair value of financial instruments, especially those that are particularly complex. The proposals build on the advice the IASB have received from the IASB's Expert Advisory Panel.	
Financial Accounting Standards Board (FASB)	
September 12, 2008	FASB Staff Position (FSP) No. 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* 1. The FSP is intended to improve disclosures about credit derivatives by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance, and cash flows of the sellers of credit derivatives 2. The FSP also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others,* to require an additional disclosure about the current status of the payment/performance risk of a guarantee. http://www.fasb.org/pdf/fsp_fas133-1&fin45-4.pdf
March 2008	FAS 161: Disclosures About Derivative and Hedging Activities • FASB 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The statement is effective for period beginning on or after November 5, 2008
Securities and Exchange Commission (SEC)	
September 2008	Letter Issued to Public Companies on MD&A Disclosures Regarding the Application of FAS 157 • The SEC 's Division of Corporate Finance sent a letter to certain public companies concerning additional MD&A disclosure consideration regarding fair value for their interim and annual filings. The letter is in response to the challenges, resulting from current market conditions, in determining the fair value of certain financial instruments. Because of the disappearance of liquidity in some market, judgment has increased in estimating fair values. As a result, judgments may materially affect a registrant's reported results of operations, liquidity or capital resources. • The SEC clarified that MD&A disclosures should offer additional insight into registrants' fair value measurement of financial instruments. http://www.sec.gov/divisions/corpfin/guidance/fairvalueltr0908.htm

Date Issued	Guidance Issued
Deloitte	
October 6, 2008	Financial Reporting Alert: 08-14: Potential Counterparty Default and Other Accounting Considerations Related to the Credit-Market Turmoil • This alert focuses on the impact of possible counterparty default on an entity's derivative contracts that are designated as hedging instruments in cash flow or fair value hedging relationships and/or accounted for under the normal purchases and normal sales exception criteria. In addition the risk of counterparty default on a contractual arrangement and broader implications the current economic environment are outlined for consideration. http://www.deloitte.com/dtt/alert/0,1001,sid%253D2002%2526cid%253D227357,00.html

Key Observations for Canadian Companies:

- Enhanced and transparent disclosures related to fair value measurements and an entity's exposure to market risk, liquidity risk, credit risk are becoming increasingly important in the current economic environment
- Given the illiquidity in the markets, an increase in the use of valuation techniques and unobservable inputs may be required to determine fair value. As a result incremental disclosures related to the use of unobservable inputs and sensitivity analysis on the fair value of these instruments for reasonable changes in these inputs is required by the accounting standards or expected by regulators to provide meaningful information to the users of the financial statements.
- Given the increase in estimates and judgments with respect to fair values and current market conditions, appropriate and robust disclosures either in the financial statements and/or the MD&A are a key focus area by both standard setters and regulators.
- A broader range of considerations with respect to the current market conditions should be assessed. Example of these types of items are the impact on the impairment assessment of goodwill and intangible assets, the incorporation of a counterparty's creditworthiness into the fair value measurements, the impact on hedging relationships for a counterparty's ability to perform under the terms of the contract, increased focus on other than temporary impairment assessments, AcG-15 and FIN 46R reconsideration events and going concern assessments.

Key Considerations for Canadian Companies:

- Has the company reviewed its financial instruments disclosures under S3862 given the current market conditions to incorporate any key changes in its exposure to credit risk, liquidity risk and market risk?
- Has the company identified all fair value measurements that use a valuation model to determine fair value? Has the classification of inputs used in the valuation model been reviewed to make an assessment as either observable or unobservable? If this review has been performed at a previous date, has the analysis been refreshed to assess if there have been any changes due to market conditions?
- If significant use of unobservable inputs in valuation models deriving fair values has a sensitivity analysis been performed to determine the impact on fair value if other reasonable assumptions are made?

- Has the company assessed the current market conditions and the impact on the financial condition and performance of the company including liquidity and capital resources and made the appropriate disclosures in the MD&A?
- Do senior management, the audit committee or the board have sufficient information as assess the impact of current market conditions on the entity?

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